



House Committee on Regulatory Reform  
September 15, 2010  
House Bills 6426 and 6427

Mr. Chairman and members, my name is George Zrinyi from Beam Global. Today, I have with me Ryan Koehneke from Brown Forman and Mike Housey from National Wine and Spirits. We are all members of the Michigan Spirits Association and are here to support Chairman Johnson's House Bills 6426 and 6427.

The MSA is made up of sales, marketing and delivery agents within Michigan. As you will see in our brochure that is before you, our members provide thousands of jobs for Michigan residents and generate nearly \$300 million in revenue for the state annually.

These bills will provide our industry with much needed opportunity for marketing and promotion. Because of Michigan's high liquor tax, coupled with the federal tax – nearly 70% of each bottle is revenue to the government. Therefore, when we increase sales, the state is the big winner. The concepts found in these bills will help increase sales and reduce bootlegging in the state.

**Sampling: Allow Off-Premise (Retail store) sampling of spirits.**

Currently 31 states allow sampling of spirits at retail stores with various levels of oversight. Additionally, 36 states, including Michigan, already allow sampling On-Premise (Bars and Restaurants). This bill would contain some of the strongest safe-guards in the country including: Reporting to the Liquor Control Commission; Limits on quantity; extensive server training requirements; limits on the number of sampling events; and penalties for violations. Attached is additional information from the Distilled Spirits Council of the United States regarding Samplings in other states. As an example, California just passed Off-Premise Sampling several weeks ago. Michigan could experience new estimated revenue of nearly **\$1 to \$2 million** due to increased sales.

**Value Added Packaging: Allow for non-alcoholic carbonated beverages (tonic, soda, cola, etc.) to be placed as a free gift in a package.**

Currently, these "gift packs" contain a bottle of liquor with a hat or glassware, but cannot include carbonated beverages because Michigan's Deposit Law requires the Michigan Liquor Control Commission to accept 10 cent deposit returnable containers because Michigan is considered the liquor wholesaler. The bill would not impact the current Deposit Law, but only allow the LCC to work with the Department of Treasury to protect the state from having to receive cans from consumers. Michigan could experience new estimated revenue of **\$2.1 to \$4.2 million** due to increased sales.

**Instant Rebates/Coupons:** Allow the spirits industry to place instant rebate coupons on bottles to increase sales.

Michigan's current policy on couponing or rebating is very antiquated. Rebates are allowed but must be mail-in only. A majority of states allow instant coupons that are redeemed at time of purchase. Currently, the spirits industry can only have mail-in rebates which have a 4 percent redemption rate which is not a valid tool in driving sales of spirits or state revenue. The legislation allows the use of instant rebates (coupons) and requires that the value of the coupon be paid by the spirits companies, not the state. Michigan could experience new estimated revenue of **\$1.7 million** due to increased.

**Enhance Bootlegging Laws:** Increase bootlegging laws in order to deter criminals that purchase liquor in bordering states and re-sell the product in Michigan.

Michigan's spirits pricing model is very non-competitive versus the border states of Indiana and Illinois. As a result there are very organized groups who are bootlegging goods from these neighbor states. Bootlegging losses to Michigan account for over 15,000 estimated cases a year. These cases are always higher end as the ability to make profit is better for the bootleggers. A 2008 report from the Michigan Liquor Control Commission summarized, "that illegal importation of alcohol into Michigan strips the State of at least \$14 million each year, including product cost, mark-up and specific taxes, but not including sales tax and business income tax." Under the legislation, penalties to increase bootlegging include license suspension and fines for on or off premise accounts that sell illegal liquor. Additionally, a tiered penalty structure is developed for those transporting "bootlegged" liquor into Michigan in order to avoid paying Michigan taxes. Michigan could experience new estimated revenue of **\$4 million**.

Thank you for your consideration.